

Governor Schwarzenegger and California's Budget

Tying Our Own Hands

Since taking office Governor Schwarzenegger's leadership has successfully spearheaded efforts to take past budget-balancing ploys off the table. Prior to his administration, the State of California was criticized by local governments for regularly using local tax dollars in difficult budget years to help cover Sacramento shortfalls (estimates put this number at \$40 billion between 1992-2004.). The Governor proposed a new set of solutions and has actively pursued policies to achieve greater fiscal stability for the state.

- **Governor Schwarzenegger proposed the California Recovery Plan.** The Governor's proposal included a Constitutional amendment to limit budget spending; it also proposed issuing economic recovery bonds and reforming workers compensation.
 - While the Legislature failed to adopt the Governor's initial spending limit proposal, the Governor fully supported the final negotiated product.
- **Governor Schwarzenegger negotiated and championed Proposition 58.** The Governor championed the California Balanced Budget Act (Proposition 58) which:
 - Requires that the State of California enact a balanced budget each year.
 - Allows the Governor to declare a fiscal state of emergency and make mid-year budget adjustments, in the event that the state faces significant revenue shortfalls or spending deficiencies.
 - Establishes a rainy day reserve.
 - Prohibits most future borrowing to cover budget deficits (general obligation bonds, revenue bonds, and certain other forms of long-term borrowing).
- **Governor Schwarzenegger negotiated and championed Proposition 1A.** The Governor worked with the legislature to place the Protection of Local Government Revenues Act (Proposition 1A) on the November 2004 ballot and campaigned on its behalf. Passed by voters, this Constitutional amendment prevents the State of California from taking funding from local coffers. As a result, the State of California cannot:
 - Reduce or reallocate local sales taxes.
 - Shift property taxes to schools (ERAF) or reallocate them among local government agencies.
 - Reduce the Vehicle Licensing Fee rate below .65 percent of value unless the state provides replacement revenue.
 - Mandate costs on locals by shifting partial or full responsibility for costs of shared programs.
- **Governor Schwarzenegger pushed for a state spending limit.** In 2005 the Governor championed Proposition 76, the California Live Within Our Means Act, which included a spending limit for the state budget—showing his commitment to solving our budget's structural problems and the state's spending habits even in prosperous economic times.
- **Governor Schwarzenegger raised the bar on Proposition 42.** As a result, the state lost its ability to borrow from these transportation funds on an open-ended basis.
 - Proposition 1A—the voter-approved 2006 ballot proposition to protect transportation funding that was part of the Governor's Strategic Growth Plan—made it more difficult for the state to tap Proposition 42 transportation funds.
 - The proposition amended the State Constitution to provide that transfers of sales taxes on gasoline under Proposition 42 can only be suspended on the condition that the suspended amount is repaid within three years. The bond also provided that an equal share of any outstanding debt related to past suspensions of Proposition 42 (done in 03-04 and in 04-05) is repaid every year. That ongoing repayment amount is \$82.7 million.